Government of Canada | Gouvernement du Canada

National Council of Welfare | Conseil national du bien-être social

January 1990

THE GST AND THE POOR

The proposed Goods and Services Tax (GST) seeks to ease the burden of increased taxes on the poor by enlarging the refundable sales tax credit and extending it higher up the income ladder.

The maximum credit for adults will rise from $140 in 1990 to $190 in 1991 and the rate for children will move from $70 to $100. In addition, single adults (including single parents) will be eligible for a single person's supplement of up to $100 (over and above their basic $190 credit) and single parents will be able to claim the $190 adult rate for one of their children. The income threshold - the net income level up to which the maximum sales tax credit is payable - will move from $18,000 in 1990 to $24,800 (the threshold for the refundable child tax credit) in 1991.

These improvements to the refundable sales tax credit are welcome. However, they still will not adequately protect low-income Canadians from the added burden of the GST.

The enhanced sales tax credit will reduce, but not remove the federal sales tax burden for poor families and individuals. Lower-income Canadians will end up paying less federal sales tax than they did before tax reform because the sales tax credit will go up more than the sales tax itself. However, these gains will be short-lived.

For example, before the GST a single wage-earner under age 65 with an income of $15,000 in 1991 would pay $475 in net (after-credit) sales tax under the old system and will pay $445 under the Goods and Services Tax - $30 less. This person's federal sales tax

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burden will fall slightly from 3.2 percent of income to 3.0 percent of income when the GST is put in place.

Lower-income families with children will fare better at first under the GST - at first. The after-credit sales tax bill for a single parent supporting two children on $15,000 in 1991 will fall from $340 or 2.3 percent of income under the old federal sales tax to $155 or 1.0 percent of income under the GST. Two-earner couples with two children and income of $20,000 will see their net sales tax burden lighten from $565 or 2.8 percent of income to $454 or 2.3 percent of income.

On the other hand, some of the poorest Canadians - single persons on welfare - will receive a smaller sales tax credit than individuals with incomes substantially above the poverty line. A single woman or man with 1991 income of $6,000 will be eligible for a sales tax credit of only $190. Yet a single person with an income of $24,000 - $9,100 above the projected poverty line for a large city in 1991 - will receive $290 in sales tax credits.

The $24,800 threshold for the sales tax credit will be the same for all households. As a result, families with children will be treated less favourably than childless couples and single Canadians. A single person with income of $24,000 - $9,100 above the projected poverty line - will be eligible for the maximum sales tax credit. However, a couple with three children and income of $30,000 - $2,300 below the projected poverty line for a large city - will receive only partial sales tax credits.

The fatal flaw in the GST credit is its lack of full protection against inflation. This failing means that the only Canadians who will face automatic sales tax increases are those least able to bear them - the poor.

When the GST is introduced in 1991, the after-credit sales tax for a single elderly Canadian with income of $12,500 will amount to $317 or 2.5 percent of income ($607 in gross sales tax less the sales tax credit of $290). By 1996, the sales tax credit will have declined to $249 (in constant 1991 dollars), so that the pensioner's net sales tax burden will rise to $358 or 2.9 percent of income. If the sales tax credit is not adjusted over and above normal partial indexation, by the year 2000 the pensioner's after-credit sales tax will come to $387 or 3.1 percent of income - more than it was under the old federal sales tax in 1990.

Inflation will hurt the poor in two ways. First, it will eat away at the refundable sales tax credit, reducing its value over time. Secondly, it will steadily depress the real level of the income threshold for the credit, so that the refundable sales tax credit will help fewer and fewer families and individuals as the years go by.

Partial indexation is also imposing a rising income tax burden on the working poor and is pushing the tax-paying threshold for income tax further and further below the poverty line over time. Even without future increases in the Goods and Services Tax, lower-income Canadians face a growing burden from sales and income taxes. They will be worse off in 1991 than they were in 1984, and worse off in 1992 than in 1991.

Recommendations

1. The sales tax credit and its threshold for maximum benefits should be fully indexed to the cost of living.

2. The sales tax credit should be increased to $400 per adult and $200 per child.

3. The sales tax credit should be increased (above and beyond regular indexation) if the Goods and Services Tax rate is increased in future; the sales tax credit should not be reduced if the GST rate is reduced.

4. The federal government should extend the single person's tax credit supplement to all low-income single Canadians.

5. The federal government should devise a threshold for the sales tax credit that varies according to family size (e.g., according to Statistics Canada's 1986 base low-income cut-offs).

6. In conjunction with community agencies and the voluntary sector, the federal government should publicize the sales tax credit and provide assistance to applicants who require help in applying for the credit.

7. The federal and provincial governments should work together to ensure that welfare recipients receive the full sales tax credits to which they are entitled; the provinces should index their social assistance rates.

8. The federal government should finance the sales tax credit not with revenues from the GST itself, but out of the larger revenues that would result from a more progressive income tax system; this approach would permit a lower GST rate that is less disruptive to the economy and which imposes a lower sales tax burden on Canadians.

9. The federal government should introduce a fully-indexed low-income tax credit to remove the income tax burden from poor taxpayers.

10. The Minister of Finance should publish a comprehensive tax expenditure account with each federal budget, providing information on the cost and distributional impact of all tax expenditures and the amount of income and sales taxes paid by representative types of households at different income levels.

FST AND GST, SINGLE WAGE-EARNERS UNDER AGE 65, BY INCOME, 1991

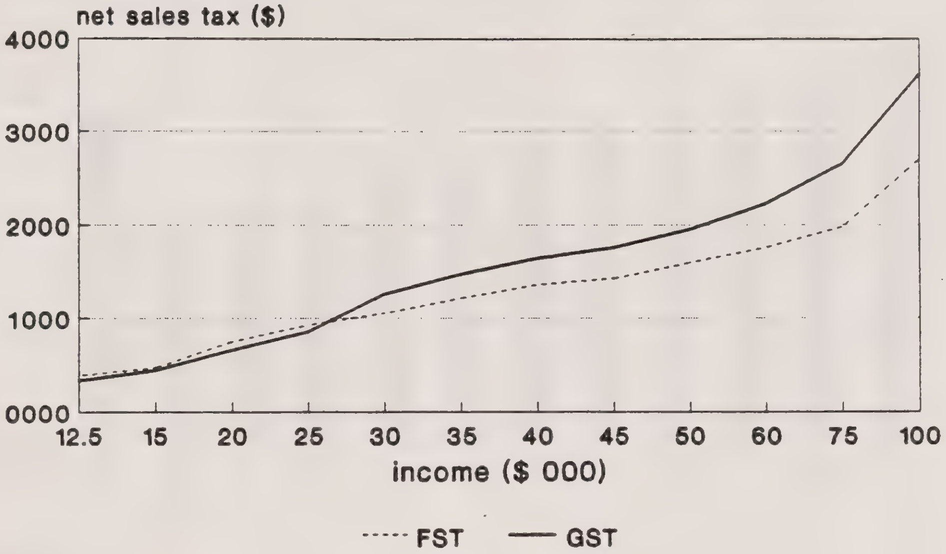

Figure A

FST AND GST AS % OF INCOME, SINGLE WAGE-EARNERS UNDER AGE 65, 1991

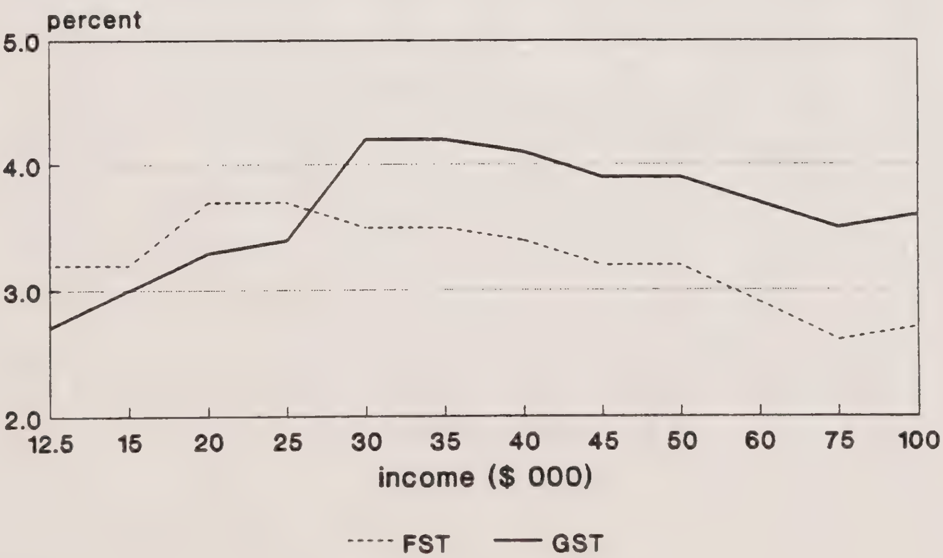

Figure B

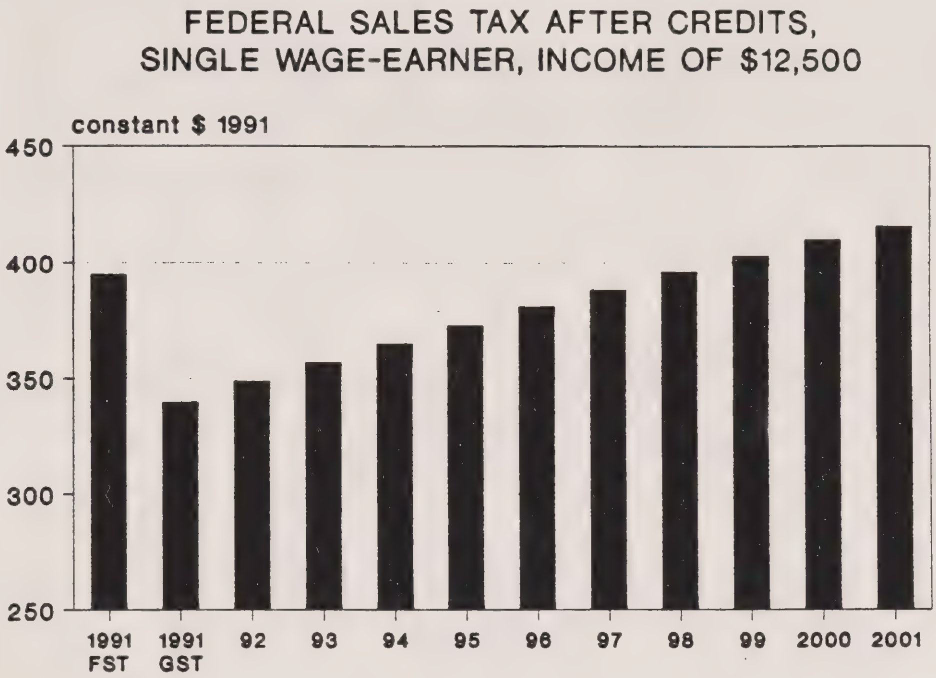

Figure C

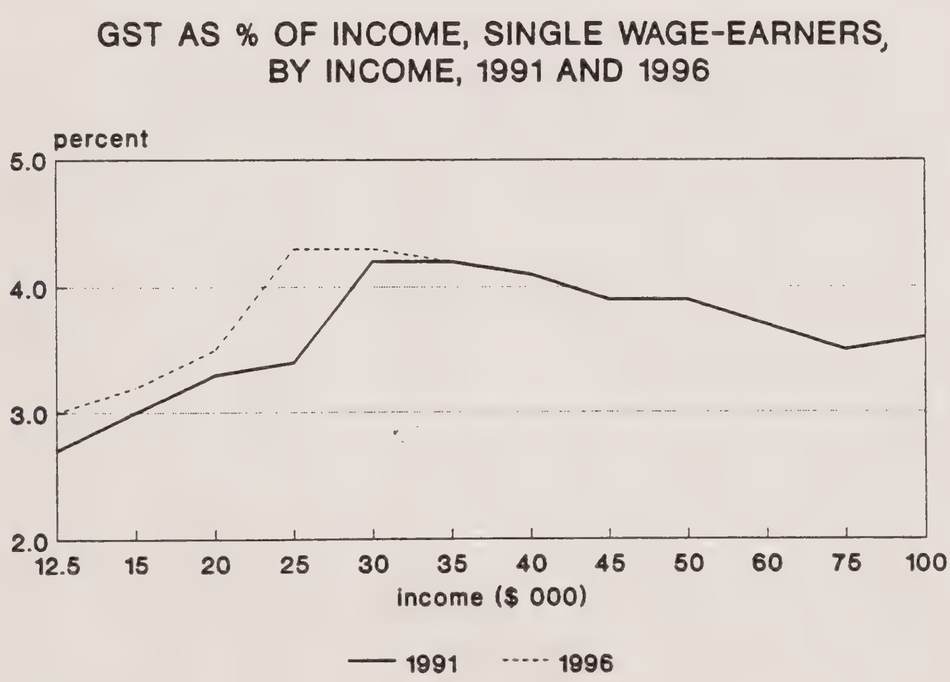

Figure D

FST AND GST, TWO-EARNER COUPLES WITH TWO CHILDREN, BY INCOME, 1991

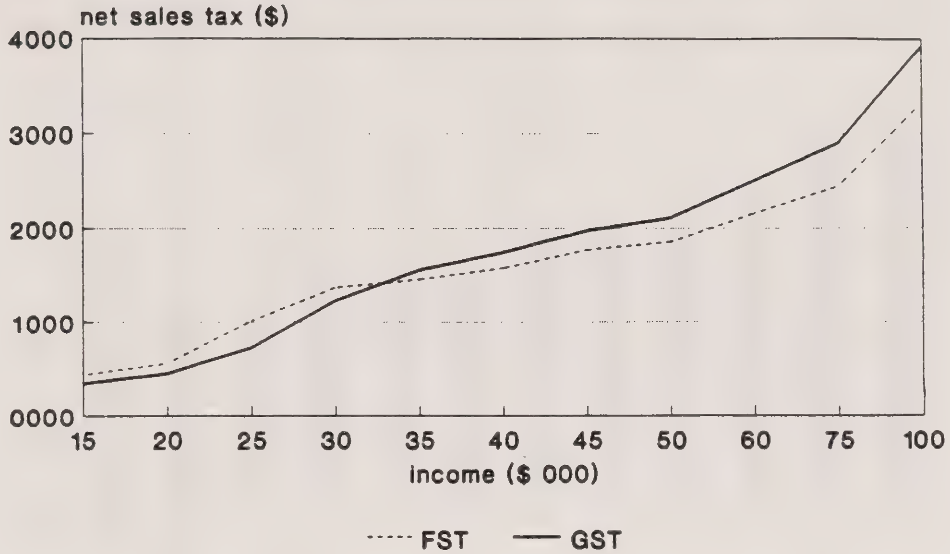

Figure E

FST AND GST AS % OF INCOME, TWO-EARNER COUPLES WITH TWO CHILDREN, 1991

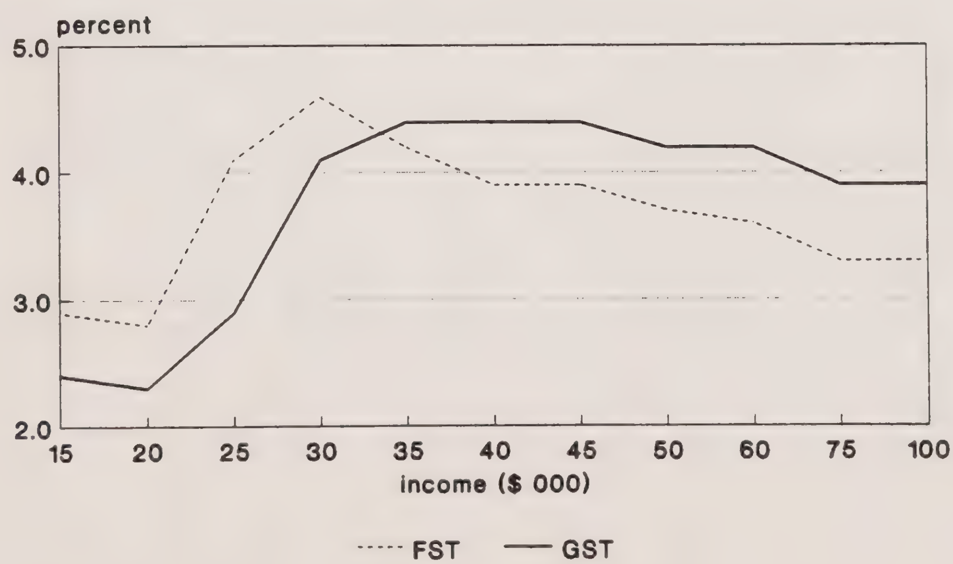

Figure F

FEDERAL SALES TAX AFTER CREDITS,
TWO-EARNER COUPLE, INCOME OF $20,000

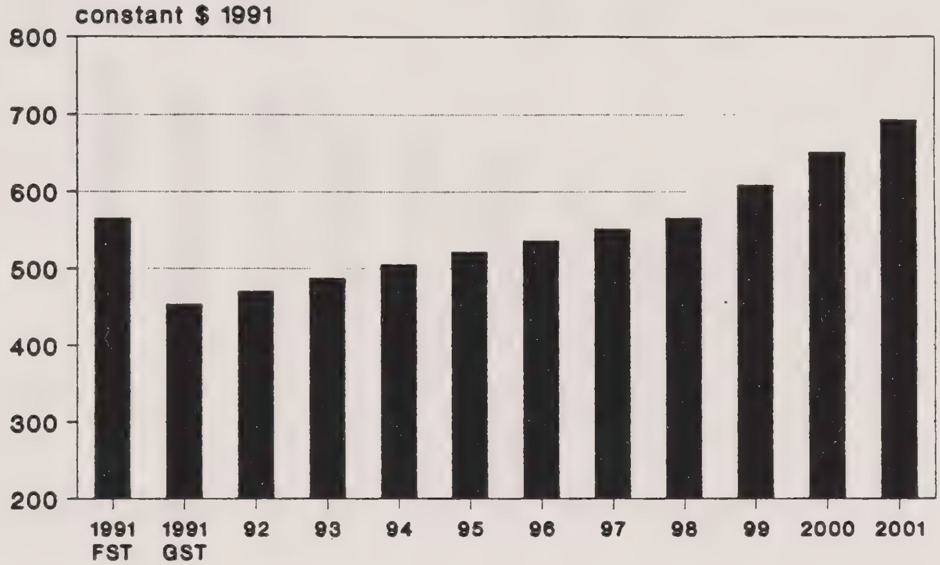

Figure G

GST AS % OF INCOME, TWO-EARNER
COUPLES WITH TWO CHILDREN, 1991 AND 1996

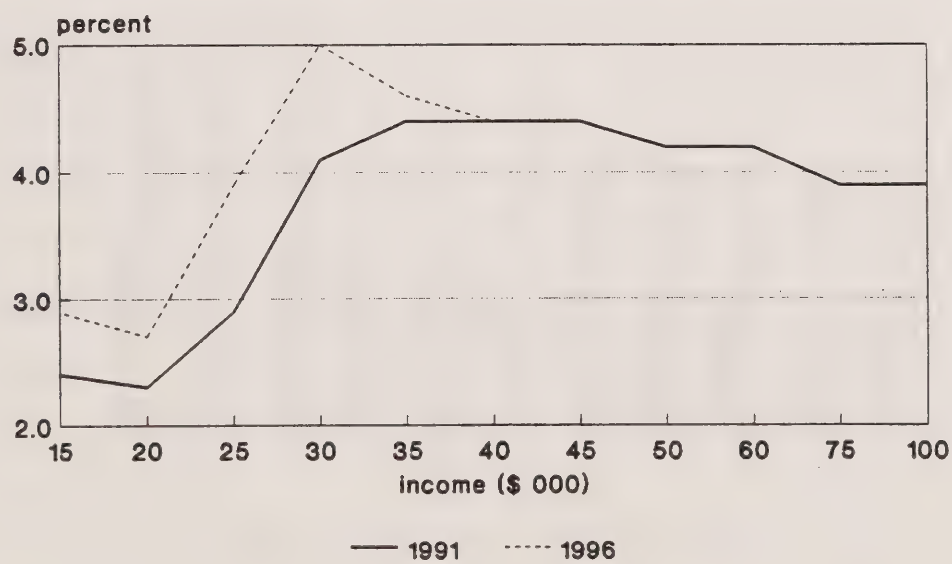

Figure H

MAXIMUM SALES TAX CREDITS, SINGLE PARENT WITH TWO CHILDREN, 1991-2001

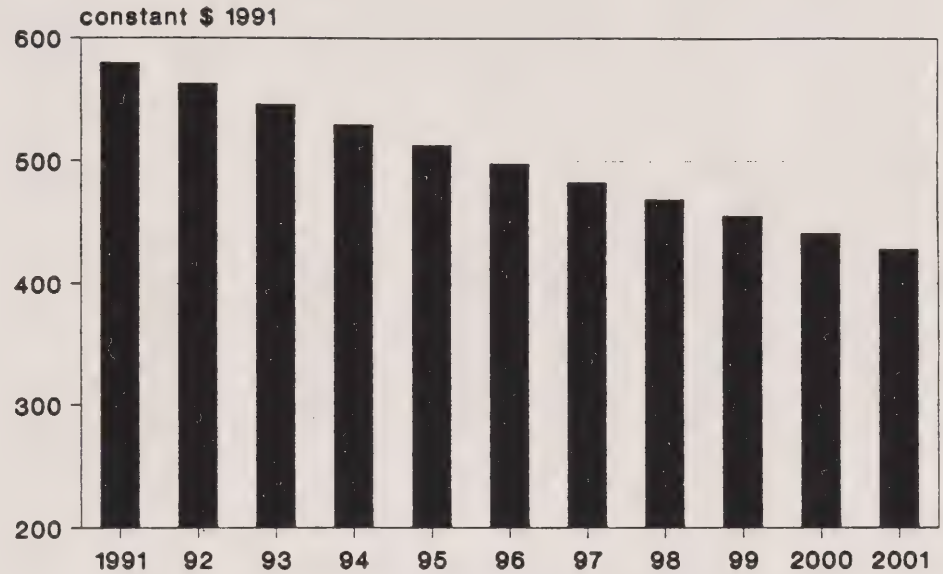

Table I

INCOME THRESHILD FOR SALES TAX CREDITS, SINGLE PARENT WITH TWO CHILDREN, 1991-2001

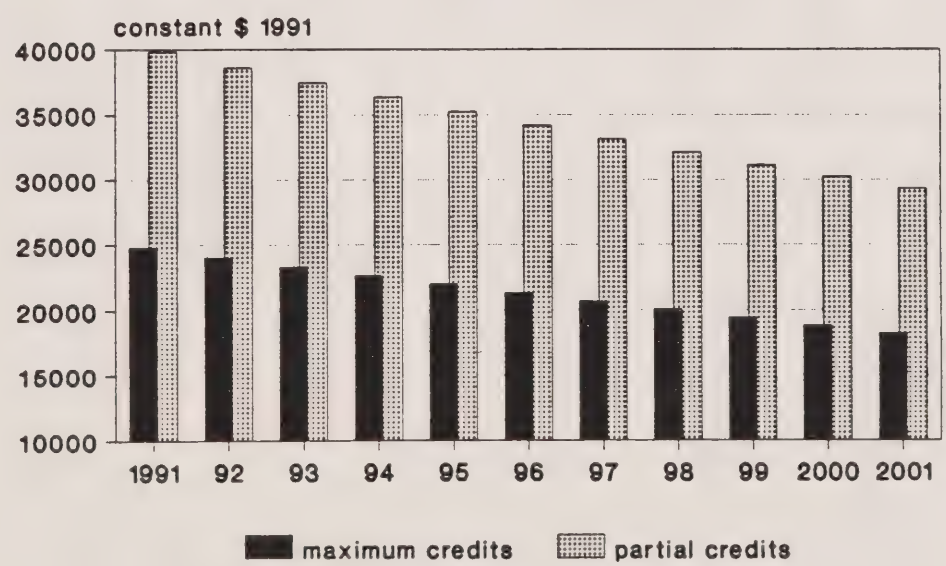

Figure J

THRESHOLD FOR SALES TAX CREDIT VERSUS POVERTY LINE, BY FAMILY SIZE, 1991

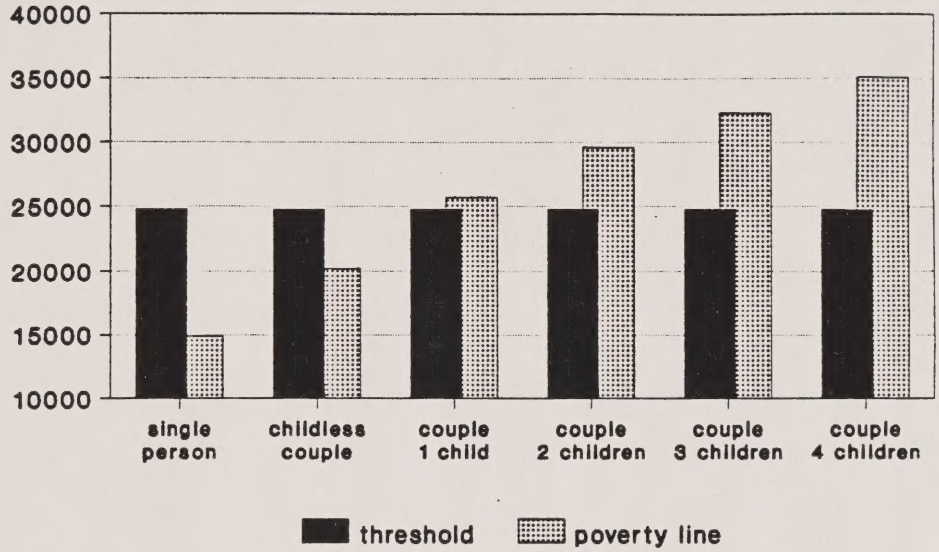

Figure K

SALES TAX CREDIT THRESHOLD MINUS POVERTY LINE, BY FAMILY SIZE, 1991

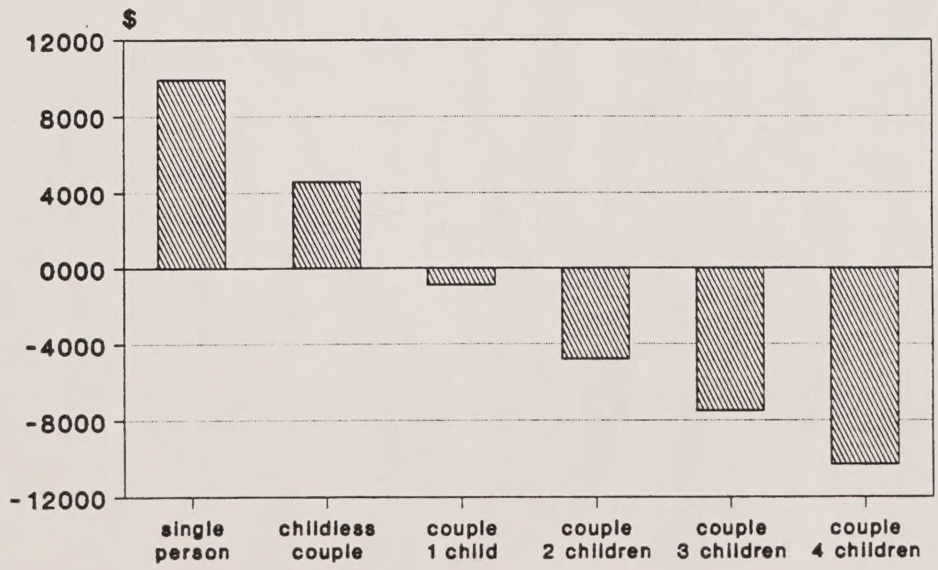

Figure L

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